NATIONAL TEA CO.

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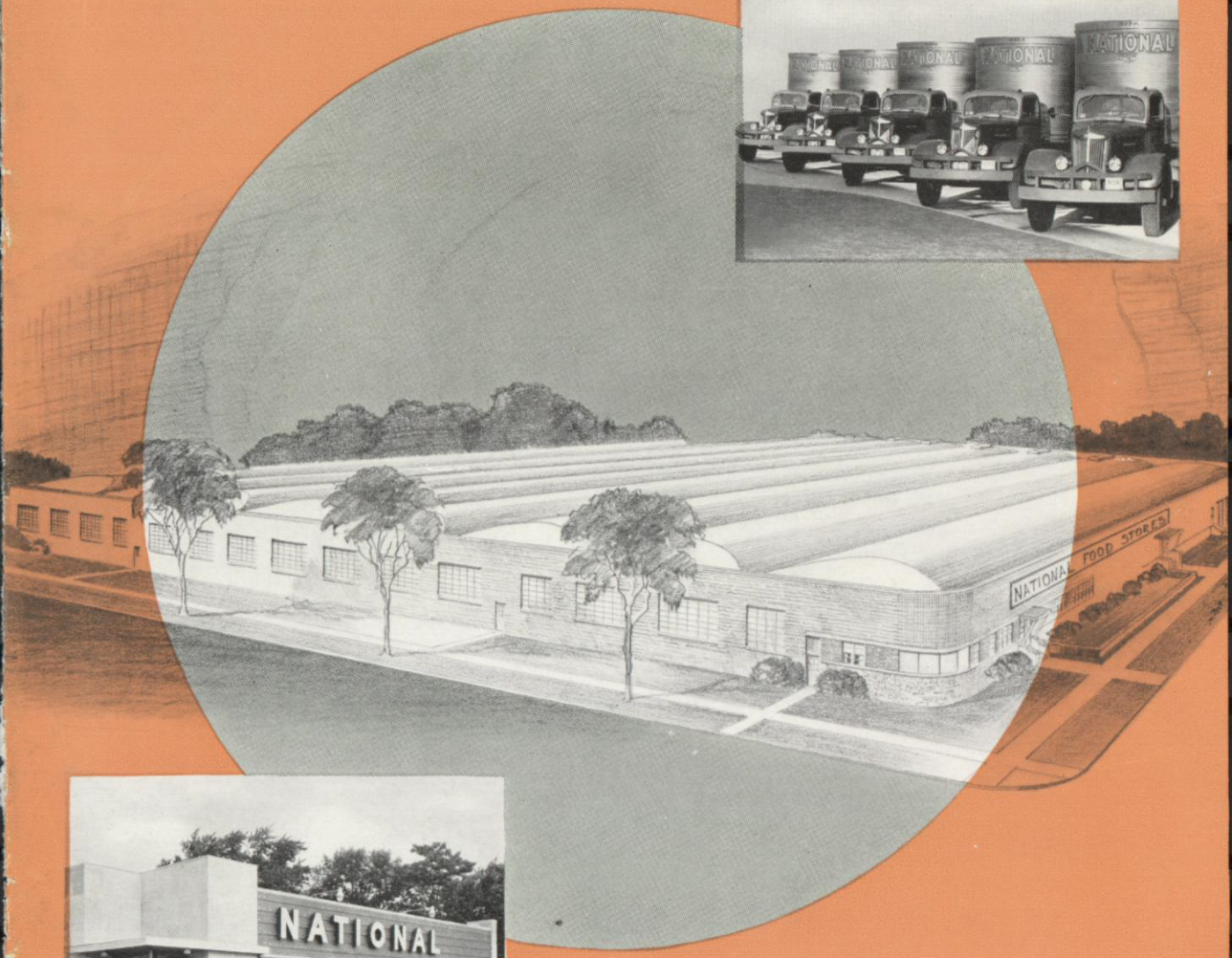
CORPORATION FILE



ANNUAL REPORT TO STOCKHOLDERS

1951

OFFICERS AND DIRECTORS

of National Tea Co.

TRANSFER AGENTS

Common Shares:

The First National Bank of Chicago
Chicago, Illinois

The Chase National Bank of New York
New York, New York

Preference Shares:

Continental Illinois National Bank & Trust Co.
Chicago, Illinois

J. P. Morgan & Co., Incorporated
New York, New York

REGISTRARS

Common Shares:

Continental Illinois National Bank & Trust Co.
Chicago, Illinois

The New York Trust Company
New York, New York

Preference Shares:

Chemical Bank and Trust Company
New York, New York

American National Bank & Trust Co. of Chicago
Chicago, Illinois

DIRECTORS

JOHN F. CUNEO *
President of The Cuneo Press, Inc.

JOHN V. FARWELL III *
President of Sanitary Scale Co.

RAYMOND P. FISCHER
Vice President of The Cuneo Press, Inc.

ARTHUR J. HANSEN
Vice President and Branch Manager

CHARLES S. KELLY
Attorney

HARLEY V. McNAMARA *
President

ROBERT V. RASMUSSEN
President, Elmwood Trust

WILLIAM E. RUSSELL
Secretary-Treasurer

ROBERT E. STRAUS
Executive Vice President of The American National Bank and Trust Company of Chicago

* Member of Executive Committee

OFFICERS

HARLEY V. McNAMARA, *President*

ARTHUR J. HANSEN, *Vice President*

NORBERT L. CHAPLICKI, *Vice President*

FRANK J. GRUMAN, *Vice President*

WILLIAM E. RUSSELL, *Secretary-Treasurer*

CLARENCE E. BEARD, *Assistant Treasurer*

CHARLES WOODING, *Assistant Secretary*

STANLEY J. WALLEN, *Assistant Secretary*

MANAGEMENT REPORT FOR YEAR 1951

TO OUR SHAREHOLDERS

The results of operation of National Tea Co. and its subsidiaries for the year 1951 are presented herewith.

SALES

Sales for the year amounted to $361,321,293 as compared with $315,218,947 for the year 1950, an increase of $46,102,346 or 14.62%. Sales showed an increase for the seventh consecutive year and set a new high record for your Company.

PROFITS

Earnings for the year amounted to $3,607,930, equivalent after preferred dividends to $2.14 per share on 1,541,960 shares of presently outstanding common. This compares with a profit of $5,214,563 in 1950 or $3.31 per share. The results for the current year are after providing an amount of $50,000 to cover estimated excess profits taxes as compared with $500,000 for the year 1950. While we had record dollar sales, we had lower earnings, due principally to the impact of Government price controls, which not only affected our operating results, but operating results throughout the entire retail food industry.

DIVIDENDS

During the year 1951 dividends of $1.60 per share were paid on the common shares. In addition, preferred dividends in the amount of $266,069 were paid.

INVENTORIES

Inventories of merchandise and supplies at December 31, 1951 amounted to $22,654,409 as compared with $23,397,133 at December 31, 1950, a decrease of $742,724.

Results at a glance

	Results of operations for the Calendar Years				
	1947	1948	1949	1950	1951
Sales	$217,915,297	$270,176,795	$274,332,677	$315,218,947	$361,321,293
Net profit before federal taxes	5,772,154	6,483,006	7,419,935	9,764,563	7,202,930
Federal Taxes—Normal	2,175,000	2,433,000	2,848,000	4,050,000	3,545,000
Excess profits				500,000	50,000
Net profit after federal taxes	3,597,154	4,050,006	4,571,935	5,214,563	3,607,930
Earned Per Share Common*	2.72	2.54	2.89	3.31	2.14
Percent of Sales	1.65	1.50	1.66	1.65	.998
Dividends paid per share on Common*	.625	.9375	1.25	1.60	1.60
Common Shareholders Investment per Share*	13.48	14.50	16.09	18.40	18.75
Ratio of Current Assets to Current Liabilities	2.18	2.40	2.48	2.02	2.43
Number of Common Shares Outstanding	641,150	769,380	769,380	1,541,160	1,541,960

*Common stock split two for one on December 20, 1950
Earnings for all years shown on equivalent basis

STORES	1947	1948	1949	1950	1951
Stores with meat markets	556	569	596	591	596
Conventional grocery stores	146	90	59	43	28
Total stores on December 31	702	659	655	634	624

REAL ESTATE

During the year the Company sold four store properties at a profit of $6,680.00. As of December 31, 1951, we continue to own nine store properties, five of which are occupied by Company stores and four are leased to others. The warehouse property at 55th and Archer Avenue, Chicago, purchased from the War Assets Administration was reactivated by the Government for defense purposes and possession taken on March 16, 1951, for a period of five years. The compensation deposited in court for the use and occupancy of this property was at the rate of $516,022.50 per year net. This amount is considered unsatisfactory by the Company and proceedings are pending before the United States District Court for final determination.

In order to obtain much needed additional space, the Company purchased a building adjoining its present warehouse in Chicago, consisting of approximately 150,000 square feet, at a cost of $350,000.

A one floor modern warehouse for the Milwaukee branch costing approximately $1,500,000 is in the process of construction (see front cover). The present warehouse in Milwaukee has been sold, with possession to be delivered after occupancy of the new warehouse.

During the year the Company has completed 40 new stores, ten being relocations and plans to open approximately 40 new stores in 1952, of which 20 will be relocations.

FINANCIAL

The Company increased its investment in Everywoman's Magazine by a loan of $100,000 on promissory note, due July 1, 1952. Other stockholders advance proportionate amounts.

Following is a brief summary of the changes in the working capital position of the Company during the year 1951:

Source of Funds:		
Net profit	$ 3,607,930	
Sale of Treasury Shares	14,000	
Sale of Preference Shares, 4.20% Series	11,768,916	$15,390,846
Disposition:		
Excess of capital expenditures over provision for depreciation and amortization and sale of property	$ 2,097,803	
Loan to Everywoman's Magazine	100,000	
Preferred shares retired	2,493,669	
Serial notes transferred to current liabilities	400,000	
Dividends:		
Preferred shares	266,069	
Common shares	2,466,496	
Increase in prepaid expenses, etc	132,029	7,956,066
Increase in Net Current Assets		$ 7,434,780

On June 22, 1951, the Company sold 120,000 Cumulative Preference Shares to a group of underwriters at a price of $101 per share. The proceeds of this sale were used to retire the outstanding 4¼% Series and 3.8% Series Preferred Shares of the Company and bank loans; the balance being added to working capital.

LITIGATION

Pending in United States District Court for the Northern District of Illinois, Eastern Division, is a complaint filed on July 21, 1949, by the Dean Milk Company against a number of defendants, including the Company, the Borden Company, Bowman Dairy Company, Western United Dairy Company, Capital Dairy Company, Hunding Dairy Company, Meadowmoor Dairy Company, American Processing and Sales Company, Inc., and John F. Cuneo, alleging that the defendants have violated the anti-trust laws in connection with the distribution of milk in the Chicago area and that the plaintiff is entitled to treble damages which are estimated in excess of $15,000,000. The Company denies the allegations of the complainant and is contesting the case. It has been set for trial on February 25, 1952, at which time it is expected to be re-set for trial at a date which cannot be predicted at the time of the preparation of this letter.

EMPLOYEES RELATIONS

Wages paid to employees amounted to $37,177,092 as compared with $32,317,123, in 1950, an increase of $4,859,969 or 15.04%.

Our Hospital Care Plan which was put into effect last year, supplementing the group Life, Health and Accident insurance plan which has been in effect for many years, is working out very satisfactorily for our employees and the Company.

Employees relations continue on a friendly basis and this spirit of cooperation throughout the Company is greatly appreciated.

H. V. McNamara
President

Chicago, Illinois
February 28, 1952

ASSETS			1951	1950
CURRENT ASSETS				
Cash			$16,642,127	$ 8,570,324
Accounts receivable, (including in 1951 $408,000 from U. S. Government on account of Chicago warehouse proceedings—Note 4), less reserves of $18,294 and $21,796			1,461,774	831,802
Inventories, at lower of cost or market—				
Merchandise			21,565,341	22,482,254
Supplies			1,089,068	914,879
Total current assets:			$40,758,310	$32,799,259
PREPAID RENTS, INSURANCE, ETC			$ 420,220	$ 341,873
INVESTMENT IN EVERYWOMAN'S MAGAZINE, at cost			$ 200,000	$ 100,000
PLANT AND EQUIPMENT, at cost:				
	Gross	Reserves		
Land	$ 812,490	$ —	$ 812,490	$ 844,179
Buildings	2,796,193	1,390,760	1,405,433	1,319,275
Fixtures and equipment	21,127,133	8,409,116	12,718,017	11,319,064
Milwaukee warehouse under construction	586,460	—	586,460	—
	$25,322,276	$9,799,876	$15,522,400	$13,482,518
Leaseholds and leasehold improvements, less amortization			1,771,027	1,635,237
			$17,293,427	$15,117,755
CHICAGO WAREHOUSE, at cost, less reserves of $261,951 and $150,209 (nonoperating property—in use by U. S. Government for defense purposes—Note 4)			$ 3,847,779	$ 3,925,648
			$62,519,736	$52,284,535

See notes to financ

AND SUBSIDIARIES

BALANCE SHEET

1951 AND 1950

LIABILITIES	1951	1950
CURRENT LIABILITIES:		
Current maturities on long-term debt	$ 400,000	$ —
Accounts payable	10,082,624	9,425,079
Accrued liabilities	2,565,949	2,118,779
Federal income and excess profits taxes	3,707,763	4,688,207
Total current liabilities:	$16,756,336	$16,232,065
LONG-TERM DEBT, less current maturities included above:		
3¼% promissory note due serially 1953 to 1964	$ 3,700,000	$ 4,000,000
Serial notes, due 1953 to 1960; interest rates 2¾% to 3%	900,000	1,000,000
	$ 4,600,000	$ 5,000,000
RESERVE FOR SELF-INSURANCE	$ 250,438	$ 304,121
CAPITAL STOCK AND SURPLUS:		
Preferred shares outstanding at December 31, 1950 (redeemed during 1951)	$ —	$ 2,463,750
Preference shares, cumulative, convertible, par value $100, 4.2% series, authorized 150,000 shares, issued 120,000 shares	12,000,000	—
Common shares, par value $5, authorized 2,100,000 shares (including 480,000 reserved for conversion of preference shares), issued 1,576,460 shares	7,882,300	7,882,300
Paid-in surplus	3,051,897	3,042,097
Earned surplus (Note 1)	18,160,111	17,627,046
	$41,094,308	$31,015,193
Less—Approximate cost of treasury shares (Note 3)— 34,500 common shares in 1951 and 35,300 common and 1,600 preferred shares in 1950	181,346	266,844
	$40,912,962	$30,748,349
	$62,519,736	$52,284,535

ial statements.

National Tea Co. and Subsidiaries

STATEMENT OF CONSOLIDATED INCOME

For the Years Ended December 31, 1951 and 1950

	1951	1950
SALES AND OTHER INCOME:		
Sales	$361,321,293	$315,218,947
Profit on disposal of fixed assets, etc.	103,658	21,682
Net revenues from Chicago warehouse (Note 4)	90,380	(119,343)
Total sales and other income	$361,515,331	$315,121,286
COSTS AND EXPENSES:		
Materials and services purchased from others	$305,360,465	$262,605,220
Wages and salaries	37,177,092	32,317,123
Rentals paid for leased properties	3,438,572	3,153,947
Provision for depreciation and amortization	2,088,133	1,787,562
Interest on indebtedness	86,891	64,426
Social security, State, local and miscellaneous taxes	6,161,248	5,428,445
Provision for Federal income taxes (including $50,000 in 1951 and $500,000 in 1950 for excess profits tax)	3,595,000	4,550,000
Total costs and expenses	$357,907,401	$309,906,723
NET INCOME FOR THE YEAR	$ 3,607,930	$ 5,214,563

STATEMENT OF CONSOLIDATED SURPLUS

For the Years Ended December 31, 1951 and 1950

	1951	1950
PAID-IN SURPLUS		
BALANCE AT BEGINNING OF YEAR	$ 3,042,097	$ 3,012,697
Excess of option price over carrying value of treasury common shares sold to officers and employees	9,800	29,400
Excess of selling price in 1951 over par value on issuance of 120,000 cumulative preference shares, 4.2% series ($120,000), less equivalent amount of underwriters' commissions on sale of issue	—	—
BALANCE AT END OF YEAR	$ 3,051,897	$ 3,042,097
EARNED SURPLUS		
BALANCE AT BEGINNING OF YEAR	$17,627,046	$14,070,739
ADDITIONS:		
Net income	3,607,930	5,214,563
Adjustments of leasehold improvements, etc. ($691,997) less applicable Federal income taxes	—	449,928
	$21,234,976	$19,735,230
DEDUCTIONS:		
Dividends—		
Preferred issues retired in 1951	$ 23,669	$ 106,836
Preference shares, 4.2% series	242,400	—
Common shares ($1.60 and $1.30 per share)	2,466,496	2,001,348
Commissions and expenses in connection with issuance of 120,000 cumulative preference shares, 4.2% series, less $120,000 charged to paid-in surplus	231,084	—
Premium on preferred shares retired, including amount equal to accrued dividends at date of redemption	111,216	—
BALANCE AT END OF YEAR	$18,160,111	$17,627,046

See notes to financial statements.

AUDITORS' CERTIFICATE

Arthur Andersen & Co.

120 South La Salle Street, Chicago 3

To the Board of Directors,

National Tea Co.:

We have examined the consolidated balance sheet of NATIONAL TEA CO. (an Illinois corporation) AND SUBSIDIARIES as of December 31, 1951, and the related statements of consolidated income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We had previously made a similar examination for the year ended December 31, 1950.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated income and surplus present fairly the financial position of National Tea Co. and Subsidiaries as of December 31, 1951, and the results of their operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Chicago, Illinois,
February 15, 1952.

ARTHUR ANDERSEN & Co.

NOTES TO FINANCIAL STATEMENTS

December 31, 1951 and 1950

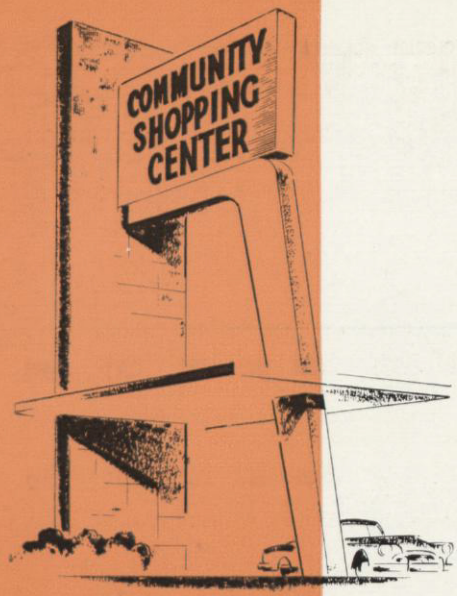
(1) At December 31, 1951, earned surplus of $14,798,128 is restricted as to the payment of dividends on common shares; net current assets remaining after giving effect to the payment of dividends on common shares must equal at least $10,000,000.

(2) A treble damage suit under the antitrust laws, Civil Action No. 49 C 1159, was filed in July 1949, in the Federal Court at Chicago by Dean Milk Company against a number of defendants, including National Tea Co., several corporations engaged in the distribution of milk in the Chicago area and one individual, claiming damages in a substantial amount on the basis of certain alleged acts of the defendants. The suit is being contested by all defendants and tentatively has been set for trial on February 25, 1952.

(3) At December 31, 1951, 10,800 common shares in treasury were reserved under option agreements for sale to officers and employees at $17.50 per share. These options are exercisable cumulatively to the maximum of 2,400 shares on or before July 11, 1952, plus 2,800 additional shares for each succeeding year through July 11, 1955.

(4) The Chicago warehouse acquired from the U. S. Government in 1948 for occupancy in 1950 was reactivated by the Government for defense purposes and possession taken on March 16, 1951, for a period of five years. The compensation deposited in court for the use and occupancy of this property was at the rate of $516,022.50 per year net of taxes, insurance, etc. This amount is considered unsatisfactory by the Company and proceedings are pending before the United States District Court for final determination.

WE SUCCEED IN SERVING BETTER AS WE STRIVE



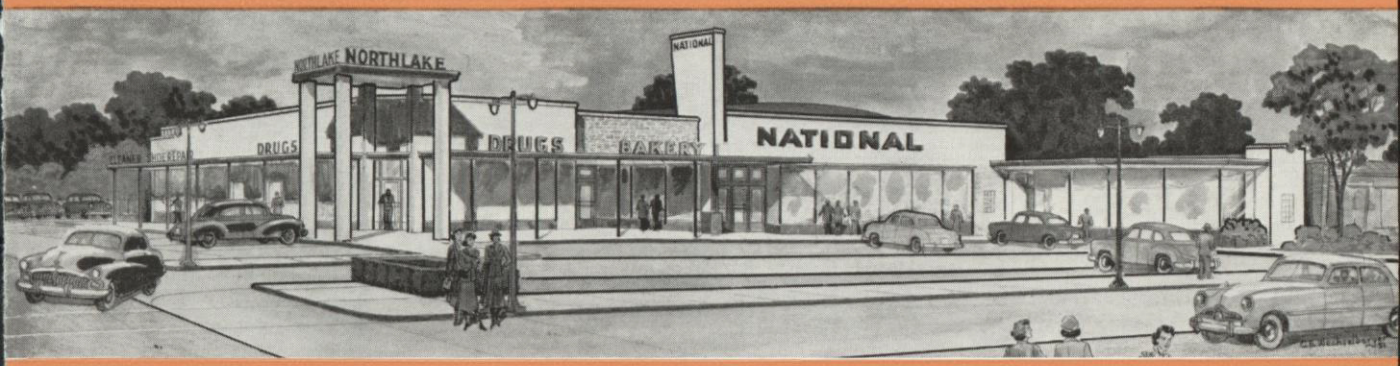
National has been quick to exploit the growing popularity of Community Shopping Centers. Those illustrated here are just a few of many such business communities in which all of our branches have participated with large modern food department store installations during the past year. Community shopping centers represent the cooperative efforts of many diversified non-competitive businesses towards providing one-stop shopping conveniences to the home maker for almost everything she needs for modern day living. Time saving shopping facilities, greater areas for free parking, coordinated shopping hours, and economy of operations are mutual benefits shared by stores and customers alike in the modern trend towards community shopping.

CHICAGO BRANCH will be well represented in this new "Village Market" Community Shopping Center in Chicago's Suburban La Grange Park when it opens in April, 1952.

MINNEAPOLIS BRANCH has proudly celebrated the opening of their National Food Store in this new one-stop shopping community center at 15 South 13 Ave., E. Duluth, Minn., on Oct. 25, 1951.

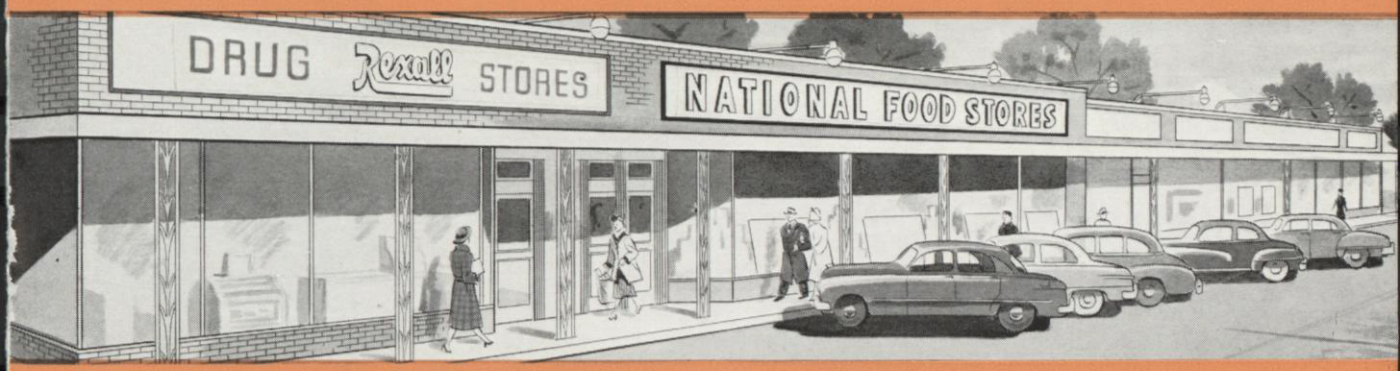
Grand New National Food Stores like these cooperating in community shopping centers with other leading retail stores of non-competitive lines are proof positive that we are keeping our pledge—"To Build Stores That Will Be a Credit To The Community They Serve!"

FOR NEW ECONOMY IN FOOD DISTRIBUTION



CHICAGO BRANCH continues to contribute their share towards establishing new community shopping centers such as this in Suburban North Lake Village at North and Wolf Rd., which will open in June, 1952.

INDIANAPOLIS BRANCH has their Standard Food Market represented in this time-saving, one-stop community shopping center at 5th and Main St., Richmond, Indiana, opened on Dec. 12, 1951.

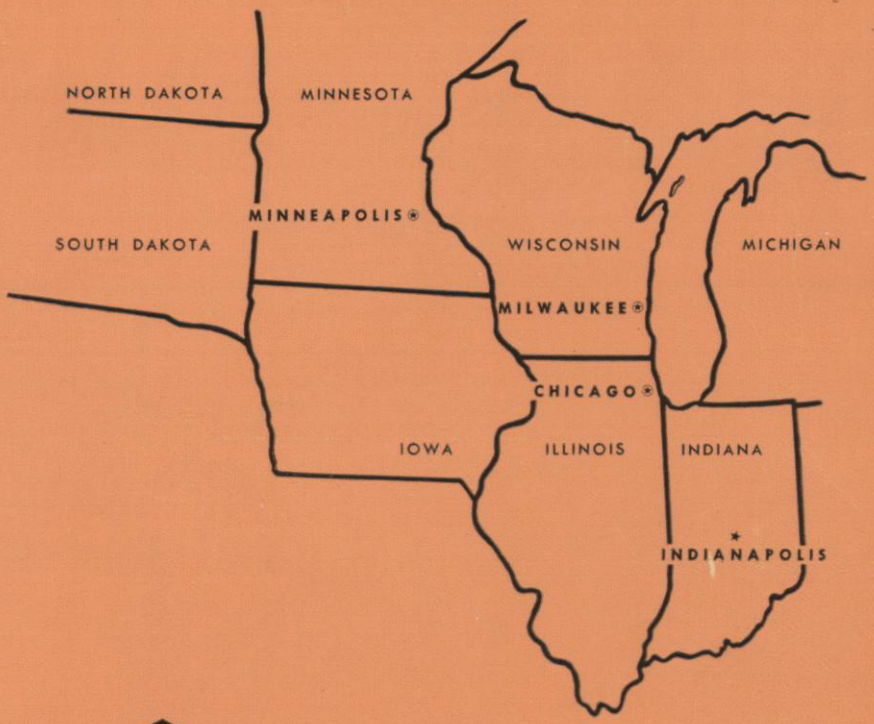


THE MILWAUKEE BRANCH has met the demands of their customers for community shopping centers by opening this new spacious store at 3244 University Avenue, Madison, Wisconsin on Nov. 29, 1951.

CHICAGO BRANCH has helped to create a new community shopping center in Suburban Deerfield, opening a modern National Food Store at 636 Deerfield Rd. on Dec. 13, 1951.

NATIONAL FOOD STORES . . .

serving the midwest



National Tea Co.
Branches in Chicago, Indianapolis, Milwaukee, and Minneapolis — with stores serving Illinois, Indiana, Iowa, Michigan, Minnesota, North Dakota, South Dakota, and Wisconsin.

ILLINOIS
305 Stores
283 Markets

MINNESOTA
121 Stores
121 Markets

WISCONSIN
78 Stores
76 Markets

INDIANA
65 Stores
65 Markets

IOWA
24 Stores
21 Markets

NORTH DAKOTA
10 Stores
10 Markets

SOUTH DAKOTA
12 Stores
12 Markets

MICHIGAN
9 Stores
8 Markets

⊛ Branch Warehouses with Bakeries

★ Branch Warehouses

NATIONAL'S PLEDGE

TO BUILD stores that will be a credit to the communities which they serve.

TO FOSTER a fine relationship between our stores and their customers, co-workers and suppliers.

TO MAINTAIN quality and always sell merchandise at a fair price.

TO STRESS honesty and sincerity in our advertising and selling.

TO CONSIDER no sale completed until the items purchased have rendered complete satisfaction.

TO MEASURE our success only by the service which we are able to provide for our customers.

These are the Ideals that Guide our Efforts To Serve You Better and Save You More!